

## Message Text

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INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 L-03 H-01 PA-01  
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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 2614

C O N F I D E N T I A L SECTION 1 OF 3 MANILA 11189

USADB

PASS TREASURY FOR BRADFORD/ZINMAN

E.O. 11652: GDS

TAGS: EAID, EFIN

SUBJECT: ADB LOAN AND TA OPERATIONS FOR AUGUST - HUMAN RIGHTS

REF: (A) TREASURY 77-95, (B) TREASURY 77-78

FOLLOWING ARE DESCRIPTIONS OF ADB LOAN AND TECHNICAL  
ASSISTANCE (TA) PROJECTS SCHEDULED TO COME BEFORE BOARD OF  
DIRECTORS IN AUGUST:

1. TAGO RIVER IRRIGATION - PHILIPPINES (LOAN):

A. SEE PARA. 23, MANILA 6957 OF MAY 9 AND ADB DOC. R41-77.  
MINDANAO IRRIGATION STUDY 11 (TA) AND MINDANAO IRRIGATION STUDY  
AERIAL MAPPING (TA) ARE ASSOCIATED WITH AND WILL BE CONSIDERED IN  
CONJUNCTION WITH TAGO RIVER IRRIGATION LOAN.

2. NATIONAL DEVELOPMENT FINANCE CORPORATION (NDFC) WAS  
ESTABLISHED IN JANUARY 1973, WITH OBJECTIVE OF PROVIDING SHORT  
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AND LONG TERM FINANCIAL ASSISTANCE IN BOTH FOREIGN AND LOCAL  
CURRENCIES, TO GOVT OF PAKISTAN, OF FIRMS WHICH HAVE BEEN  
DECLARED BY THE GOVERNMENT TO BE ELIGIBLE ENTERPRISES.  
NDFC, WHICH IS 100 PERCENT GOVERNMENT-OWNED WITH AN  
AUTHORIZED SHARE CAPITAL OF RS. 100 MILLION, BEGAN LENDING  
OPERATIONS IN JULY 1973.

B. BY END OF 1976, NDFC HAS SUCCEEDED IN MOBILIZING RS. 703 MILLION IN SHORT AND LONG TERM DEPOSITS, IN ADDITION TO ITS SHARE CAPITAL, TO PROVIDE BASIS FOR ITS LOCAL CURRENCY LENDING. IN CASE OF FOREIGN EXCHANGE, NDFC RECEIVED AN IDA CREDIT OF \$30 MILLION IN MAY 1975, OUT OF WHICH \$21 MILLION HAS BEEN COMMITTED, AND BALANCE IS EARMARKED FOR SPECIFIC PROJECTS. THESE FUNDS ARE EXPECTED TO BE FULLY COMMITTED BY JUNE 1977. FINANCIAL REQUIREMENTS OF NDFC FOR COMING TWO YEARS WILL TOTAL ABOUT \$100 MILLION AND ACCORDINGLY, GOVT OF PAKISTAN AND NDFC HAVE APPLIED TO ADB FOR A LOAN IN AMOUNT OF \$30 MILLION TO HELP MEET FOREIGN EXCHANGE REQUIREMENTS OF NDFC.

C. NDFC'S LENDING ACTIVITIES REFLECT GOVERNMENT'S STRATEGY FOR INDUSTRIAL INVESTMENTS IN PUBLIC SECTOR, WITH ITS EMPHASIS ON IMPORT SUBSTITUTION, SELF-RELIANCE THROUGH BASIC ENGINEERING INDUSTRIES AND RATIONALIZATION AND IMPROVEMENT OF AGRO-BASED INDUSTRIES IN ORDER TO ENSURE PRICE STABILITY FOR BASIC FOODSTUFFS. FORTY-SIX PERCENT OF NDFC'S CUMULATIVE LOAN APPROVALS HAVE GONE TO THREE KEY SECTORS WITH SIGNIFICANT POTENTIAL FOR CONTRIBUTIONS TO THE ECONOMY OF PAKISTAN - ENERGY (22 PERCENT), AGRO-BASED INDUSTRIES (12 PERCENT), AND CHEMICALS AND FERTILIZERS (12 PERCENT).

D. NDFC'S ATTENTION TO ENERGY SECTOR, PARTICULARLY  
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IN FINANCING EXPLORATION AND DEVELOPMENT OF PROVEN OIL AND GAS FIELDS, SHOULD HAVE A MARKED IMPACT ON ECONOMY OF PAKISTAN. DISCOVERY IN DECEMBER 1976 OF LARGE RESERVES OF OIL AND GAS IN PUNJAB BY ONE OF NDFC'S BORROWERS, THE OIL AND GAS DEVELOPMENT CORPORATION, IS EXPECTED TO ULTIMATELY CONTRIBUTE SIGNIFICANT FOREIGN EXCHANGE SAVINGS. INVESTMENTS IN AGRO-BUSINESS INDUSTRIES, CHEMICALS AND FERTILIZERS, SHOULD PROVE OF ECONOMIC BENEFIT TO THE 55 PERCENT OF PAKISTAN LABOR FORCE STILL DIRECTLY ENGAGED IN AGRICULTURE.

E. BASED ON A PARTIAL BUT REPRESENTATIVE SAMPLE OF NDFC'S TERM LOAN APPROVALS (I.E. OTHER THAN LOANS FOR WORKING CAPITAL), NDFC ASSISTED PROJECTS ONCE IMPLEMENTED AND OPERATIONAL, SHOULD HAVE A CONSIDERABLE IMPACT ON JOB CREATION. SOME 8,000 ADDITIONAL JOBS ARE EXPECTED TO RESULT DIRECTLY FROM NDFC'S PROJECT INVESTMENTS THROUGH TERM LOANS DURING NEXT TWO YEARS.

### 3. POWER DISTRIBUTION - INDONESIA (LOAN):

A. PROJECT INCLUDES REHABILITATION AND EXPANSION OF

DISTRIBUTION NETWORKS IN MEDAN AREA OF NORTH SUMATRA AND  
CIREBON AREA OF WEST JAVA.

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 2615

C O N F I D E N T I A L SECTION 2 OF 3 MANILA 11189

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PASS TREASURY FOR BRADFORD/ZINMAN

B. MEDAN IS THIRD LARGEST URBAN CENTER IN  
INDONESIA AND ONLY 16 PERCENT OF ITS POPULATION IS NOW  
SUPPLIED WITH ELECTRICITY. EXISTING SUPPLY IS INADEQUATE  
BECAUSE OF DISTRIBUTION CONSTRAINTS AND IS UNRELIABLE.  
CIREBON AREA IS A KEY POPULATION CENTER IN WEST JAVA WITH  
AGRICULTURE, FISHERIES, INDUSTRY AND MINING PROVIDING ITS  
ECONOMIC BASE. AREA IS UNDER-SUPPLIED BOTH IN TERMS OF  
QUANTITY AND QUALITY, AND PROJECT IS NEEDED TO PROVIDE  
A BASIS FOR FURTHER ECONOMIC GROWTH. FOR BOTH AREAS,  
PROJECT REPRESENTS LEAST COST MEANS OF PROVIDING ADDI-  
TIONAL DISTRIBUTION AND WILL BE BASIS FOR GENERATION OF  
ADDITIONAL EMPLOYMENT OPPORTUNITIES AND INCOMES FOR  
LOW-INCOME FAMILIES.

4. ENGINEERING EDUCATION - PHILIPPINES (LOAN):

NO CURRENT NATIONAL DATA ON INCOME OF COLLEGE  
STUDENTS ARE AVAILABLE. A SURVEY PUBLISHED IN 1971 OF  
GRADUATES IN FIELDS OF ENGINEERING AND TECHNOLOGY  
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REPORTED THAT 55 PERCENT OF GRADUATES' PARENTS HAD ANNUAL INCOMES OF LESS THAN PS 3,000; 34 PERCENT HAD INCOMES BETWEEN PS 3,000 AND PS 7,000 AND 11 PERCENT HAD INCOMES GREATER THAN PS 7,000. AT SAME TIME, MEAN HOUSEHOLD INCOMES FOR PHILIPPINES WAS ABOUT PS 3,750 PER YEAR. AT ALL LEVELS OF PHILIPPINE EDUCATIONAL SYSTEM, HOWEVER, ATTRITION RATES ARE GENERALLY HIGHER - FOR FINANCIAL REASONS - FOR LOWER INCOME STUDENTS. IT IS THEREFORE PROBABLE THAT FOREGOING DATA ON GRADUATES OVERESTIMATED INCOME LEVELS OF STUDENTS. IT ACCORDINGLY APPEARS REASONABLE TO ASSUME THAT ABOUT 55-56 PERCENT OF ENGINEERING AND TECHNOLOGY STUDENTS CAME FROM FAMILIES WITH INCOMES BELOW NATIONAL AVERAGE. ALTHOUGH ABSOLUTE INCOME LEVELS HAVE INCREASED IN INTERVENING YEARS, THERE IS LITTLE REASON TO BELIEVE THAT PROPORTION OF STUDENTS FROM LOWER INCOME CATEGORIES HAS CHANGED SIGNIFICANTLY.

FEW OF THE 20 ENGINEERING SCHOOLS THAT WILL PARTICIPATE IN PROPOSED PROJECT HAD AVAILABLE COMPREHENSIVE DATA ON SOCIO-ECONOMIC STATUS OF THEIR ENGINEERING STUDENTS. PARTIAL DATA AVAILABLE FROM FOUR SCHOOLS TEND TO CONFIRM THAT SITUATION HAS NOT CHANGED SIGNIFICANTLY FROM EARLY 1970'S. OF 48,000 ENGINEERING STUDENTS CURRENTLY ENROLLED AT THE 20 SCHOOLS, ABOUT 26,000-31,000 WOULD COME FROM LOWER INCOME FAMILIES. SEVERAL OTHER FACTORS MAY ALSO BE NOTED: ALL PARTICIPATING SCHOOLS HAVE ACTIVE SCHOLARSHIP PROGRAMS TO ASSIST POORER STUDENTS AND 18 SCHOOLS OFFER EVENING CLASSES TO PERMIT WORKING STUDENTS TO ATTEND ON PART-TIME BASIS; UNIVERSITY OF THE PHILIPPINES AND THE 12 PROVINCIAL SCHOOLS IN PARTICULAR MAKE SPECIAL EFFORTS TO RECRUIT STUDENTS FROM RURAL AREAS; THE TWO SCHOOLS IN MINDANAO AND ONE EACH IN NEGROS AND CEBU MAKE SPECIAL EFFORTS TO

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RECRUIT MINORITY STUDENTS FROM MINDANAO; UNIVERSITY OF THE PHILIPPINES AND A NUMBER OF RELIGIOUS SCHOOLS (E.G. NOTRE DAME UNIVERSITY, UNIVERSITY OF NEGROS OCCIDENTAL-RECOLLETOS, SILLIMAN UNIVERSITY AND CENTRAL PHILIPPINE UNIVERSITY) RELY PARTLY ON EXTERNAL FUNDING AND SUBSIDIZE THEIR TUITION FEES IN ORDER TO ENCOURAGE POORER STUDENTS TO ATTEND.

FOR THE POORER STUDENTS, MAIN BENEFITS OF PROJECT WILL ACCRUE FROM THEIR IMPROVED EARNING POTENTIAL RESULTING FROM PROVISION OF HIGHER QUALITY EDUCATION AND FROM INCREASED LIKELIHOOD THAT THEY WILL BE ABLE TO COMPLETE

THE ENGINEERING COURSE AND GRADUATE. PARTICULARLY FOR STUDENTS FROM RURAL AREAS AND MINORITIES, PROJECT WILL ALSO PROVIDE BETTER ACCESS TO HIGH QUALITY EDUCATION WITHIN THEIR HOME PROVINCE.

5. MINERAL RESOURCES EXPLORATION - KOREA (TA);

A. IN 1975 KOREA IMPORTS OF MINERALS AND FOSSIL FUELS AMOUNTED TO \$1.6 BILLION EQUIVALENT TO 22 PERCENT OF ALL IMPORTS (\$7.3 BILLION) AND REPRESENTING FOREIGN EXCHANGE EXPENDITURES EQUIVALENT TO ABOUT 31 PERCENT OF ALL EXPORT EARNING (\$5.1 BILLION). SCARCITY OF FOREIGN EXCHANGE, INDEPENDENCE FROM PRICE AND AVAILABILITY FLUCTUATIONS IN THE INTERNATIONAL MARKETS FOR MINERAL PRODUCTS, AND INTERNATIONAL PRICE COMPETITIVENESS OF INDUSTRIAL PRODUCTS BASED ON INTERMEDIATE OUTPUTS FROM THE NEW HEAVY AND CHEMICAL INDUSTRY, GIVE STRONG

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 2616

C O N F I D E N T I A L SECTION 3 OF 3 MANILA 11189

USADB

PASS TREASURY FOR BRADFORD/ZINMAN

ECONOMIC PREFERENCE TO DOMESTICALLY PRODUCED MINERALS.

B. IN 1975 THE MINING SECTOR CONTRIBUTED APPROXIMATELY 1.3 PERCENT OR \$242.7 MILLION (1975 CONSTANT VALUES) TO COUNTRY'S GNP, EMPLOYING 67,070 PERSONS AND EXPORTING MINERALS AT TOTAL VALUE OF \$71.7 MILLION. ECONOMICALLY IMPORTANT MINERALS SUCH AS ANTHRACITE, IRON,

LIMESTONE, COPPER, ZINC, LEAD, TUNGSTEN SHOW A STEADY PRODUCTION INCREASE OVER THE LAST YEARS.

C. ALTHOUGH WIDELY SCATTERED AND OF VARYING QUALITY, KOREA HAS CONSIDERABLE MINERAL RESERVES. IN ORDER TO COMPLETE A NATIONWIDE MINERAL RESOURCES SURVEY, WHICH WOULD PROVIDE MORE RELIABLE DATA IN TERMS OF QUANTITIES AND LOCATIONS, THE GOVERNMENT REQUESTED BANK'S ASSISTANCE FOR PROCUREMENT OF MINERAL EXPLORATION EQUIPMENT, LABORATORY FACILITIES AND SERVICE OF FOREIGN EXPERTS TO SUPPLY NECESSARY SPECIALIZED SURVEY TECHNOLOGY.

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D. WITH A COMPARATIVELY VERY SHORT DEVELOPMENT TIME IN SOUTH KOREA OF APPROXIMATELY ONLY TWO YEARS BETWEEN SURVEY/EXPLORATION ON ONE HAND AND BEGINNING OF PRODUCTION ON OTHER HAND, SUBSTANTIAL INCREASES IN EXPLORATORY ACTIVITIES ARE LIKELY TO LEAD TO SIGNIFICANT INCREASES IN MINERAL PRODUCTION. THUS, PROPOSED PROJECT WOULD CONTRIBUTE TO IMPROVE SUBSTANTIALLY AVAILABILITY OF DOMESTICALLY PRODUCED MINERALS.

E. SOCIO-ECONOMIC CONTRIBUTIONS FROM THIS TA AND THE PROJECT CAN BE EXPECTED IN TWO AREAS: IN TERMS OF SOCIAL INCOME DISTRIBUTION, TA WILL LEAD TO MORE MINING ACTIVITIES AND HENCE MORE EMPLOYMENT THROUGH MINING. AS MINING IN KOREA IS ON AVERAGE MORE THAN TWICE AS LABOR-INTENSIVE THAN MANUFACTURING, IT IS ESTIMATED, THAT TA AND PROJECT WILL GENERATE BETWEEN 5,000 TO 7,000 NEW JOBS. MORE IMPORTANT IS REGIONAL INCOME DISTRIBUTION ASPECT: IN CONTRAST TO MANUFACTURING, MINING ACTIVITIES IN KOREA ARE HIGHLY DISPERSED. WHILE EMPLOYMENT-WISE 65 PERCENT OF ALL MANUFACTURING ACTIVITIES IS CONCENTRATED IN AND AROUND SEOUL AND PUSAN, ONLY 9 PERCENT OF MINING IS LOCATED IN THESE AREAS. IN TERMS OF EMPLOYMENT MORE THAN 80 PERCENT OF MINING IS DONE IN PROVINCES WITH A COMPARATIVELY LOW REGIONAL PER CAPITA INCOME. HENCE TA AND PROJECT WOULD HELP TO IMPROVE REGIONAL INCOME DISTRIBUTION.

#### 6. SIKTA IRRIGATION - NEPAL (TA):

A. TA PROVIDES FOR PROJECT PREPARATION FOR A MASTER PLAN FOR AREA DEVELOPMENT AND PREPARATION OF DETAILED PLAN AT FEASIBILITY LEVEL FOR FIRST PHASE OF SIKTA IRRIGATION DEVELOPMENT. NO AGRICULTURAL

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STATISTICS ARE AVAILABLE IN PROJECT AREA, HOWEVER, SINCE AREA WOULD OCCUPY SUBSTANTIAL PORTION OF THE BANKE DISTRICT, AVAILABLE AGRICULTURAL INFORMATION OF THIS DISTRICT MAY BE INDICATIVE OF AGRICULTURAL SITUATION OF THE PROJECT AREA.

B. PRESENT AGRICULTURAL POPULATION IN DISTRICT ARE 121,300 OR 84 PERCENT OF THE TOTAL. THERE ARE ABOUT 23,200 FAMILIES OF 5.23 PERSONS PER FAMILY WITH AVERAGE CULTIVATED LAND OF 1.77 HA. THERE ARE ABOUT 16,370 LAND TITLE HOLDERS OF WHICH 78 PERCENT HOLD 2.70 HA. OR LESS, 14 PERCENT HOLD BETWEEN 2.70 AND 6.8 HA. AND ONLY 1.5 PERCENT HOLD 19 HA. OR MORE.

C. IT IS EXPECTED THAT WITH IRRIGATION THE PER HECTARE YIELD OF PADDY, WHEAT, MAIZE AND MUSTARD WOULD INCREASE FROM PRESENT 1.37 M.T., 1.10 M.T., 0.80 M.T., AND 0.50 M.T. TO 4.0 MT., 2.50 MMT., 2.00 MMT., AND 1.50 M.T., RESPECTIVELY. BY ASSUMING PROPOSED PROJECT AREA OF 15,000 HA., ESTIMATED VALUE OF PRESENT (WITHOUT IRRIGATION) AND FUTURE (WITH IRRIGATION) AGRICULTURAL PRODUCT PER ANNUM WOULD BE \$8.53 MILLION AND \$19.13 MILLION, RESPECTIVELY.

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## Message Attributes

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